

## Can Fin Homes Ltd.

25<sup>th</sup> January 2024

## Strong guidance to grow disbursement

During Q3FY24, Can Fin Homes Ltd (CFHL) registered a lower growth in its loan book, which grew by 2% on a QoQ and 13% on a YoY basis. The NII grew by 4% sequentially and 31% on a YoY basis. Due to the decline in cost-to-income ratio by 154 bps on a QoQ and 236 bps on a YoY basis, the PAT increased by 27% on a QoQ basis and 32% on a YoY basis. The GNPA and NNPA deteriorated by 15 bps and 6 bps sequentially at 0.91% and 0.49%, respectively. In line with the management guidance, the NIM improved by 30 bps on a QoQ basis to 3.9%. In FY24, the management is expecting NIM to remain stable at 3.7-3.8% and the cost-to-income ratio at ~16%, while this will increase to 18.0-18.5% in FY25 as the Company continues its investment in IT transformation.

## Strong guidance in loan book

CFHL reported a lower QoQ growth of 2% and a YoY growth of 13% in Q3FY24 on its loan book. During the quarter, the Company witnessed a decrease in disbursement due to the tightening of the Company's processes implemented in the previous quarter, led by fraud detected in the Ambala branch. Due to this, October month experienced a subdued performance, but by December month, the Company was on track to achieve a monthly disbursement of Rs. 7 Bn. Going forward, the management forecasts a significant increase in disbursement, with expectations of growing by Rs. 25 Bn in Q4FY24 and in FY25 the management expects Rs. 120 Bn. Further, the Company aims to achieve a 13-14% growth in its loan book for FY24, with a target to further increase it by 15% in FY25. The management expects its loan book to double over the next four years.

## Asset quality deteriorates

Over the last three quarters, the Company's asset quality has deteriorated. GNPA for the quarter has increased from 0.76% in Q2FY24 to 0.96% in Q3FY24. The increase in GNPA during the quarter is due to the restructuring book. The total restructured portfolio was around Rs. 6.5 Bn, out of which 90% of the restructured book came out till Sep'23, and ~15% of the total restructured book moved into GNPA. Going forward, the Company is expecting GNPA to improve at 0.75-0.80% in FY24 and 0.60-0.70% in FY25. The management expects Rs. 200-300 Mn recovery in Q4FY24.

## Improvement in NIM

During the quarter, the Company's NIM has improved from 3.6% in Q2FY24 to 3.9% in Q3FY24. The increase in NIM was due to the repricing of the last tranche of loans. The Company expects NIM to maintain at 3.7-3.8% in FY24 and target >3.5% in FY25.

## View &amp; Valuation

We have revised our estimates and maintained our view on Can Fin Homes Ltd. with a NEUTRAL rating and a target price of Rs. 815 (2.2x FY25E Adj. book value), suggesting a ~6% upside. We believe that CFHL will grow its loan book at 15% in FY25 and maintain its NIM at 3.6%.

## NEUTRAL

CMP Rs. 770

TARGET Rs. 814.6 (5.8%)

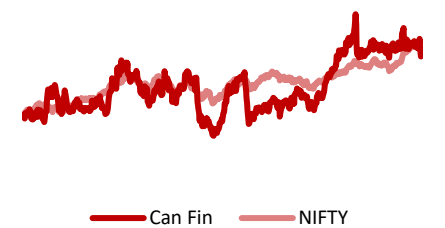
## Company Data

Bloomberg Code	CANF IN
MCAP (Rs. Mn)	96,577
O/S Shares (Mn)	133
52w High/Low	905 /509
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	626

## Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	30.0	30.0	30.0
FIIIs	11.1	11.4	10.7
DIIIs	28.5	27.4	28.0
Non-Institutional	30.5	31.2	31.3

## CFHL vs Nifty



Jan, 21      Jan, 22      Jan, 23      Jan, 24

Source: Company, Keynote Capitals Ltd.

## Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	10	12	14
PPOP	9	11	11
Net Profit	6	7	8
Networth	36	43	51
ROA (%)	1.9%	1.9%	1.8%
ROE (%)	17.0%	16.9%	16.0%

Source: Company, Keynote Capitals Ltd.

Devin Joshi, Research Analyst  
Devin@keynoteindia.net

## Q3FY24 Result Update

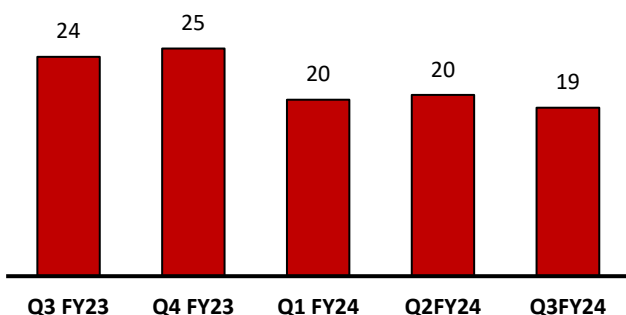
### Result Highlights (Rs. Mn)

Profit & Loss	Q3FY24	Q3FY23	Change YoY (%)	Q2FY24	Change QoQ (%)	9MFY24	9MFY23	Change YoY (%)	FY23
Net Interest Income	3,291	2,485	32.4%	3,160	4%	9,293	7,473	24.4%	10,091
Other Income	7	2	308.2%	0	4914.6%	8	6	34.7%	11
Net Income	3,298	2,487	32.6%	3,160	4.4%	9,301	7,479	24.4%	10,103
Operating Expenses	433	357	21.1%	458	-5.5%	1,259	1,039	21.1%	1,445
<b>Pre-Provision Operating Profit</b>	<b>2,865</b>	<b>2,129</b>	<b>34.6%</b>	<b>2,702</b>	<b>6.0%</b>	<b>8,043</b>	<b>6,440</b>	<b>24.9%</b>	<b>8,658</b>
Provisions	308	84	265.9%	722	-57.3%	1,167	180	549.8%	418
Profit Before Tax	2,557	2,045	25.0%	1,980	29.1%	6,876	6,260	9.8%	8,240
Tax	556	530	4.8%	399	39.2%	1,459	1,706	-14.5%	2,028
<b>Profit After Tax</b>	<b>2,001</b>	<b>1,515</b>	<b>32.1%</b>	<b>1,581</b>	<b>26.6%</b>	<b>5,417</b>	<b>4,554</b>	<b>18.9%</b>	<b>6,212</b>
EPS (Rs.)	15	11		11.9		41	34		47

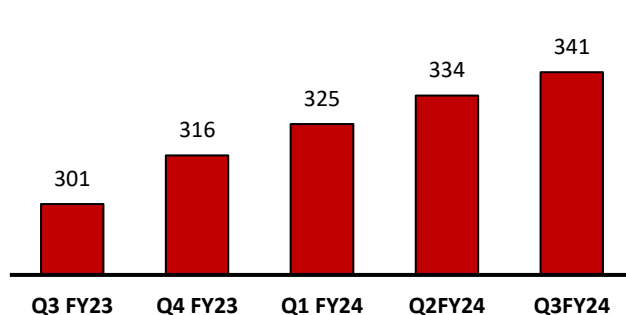
Source: Company, Keynote Capitals Ltd.

## Quarterly Business Progression

### Disbursement (Rs. Bn)

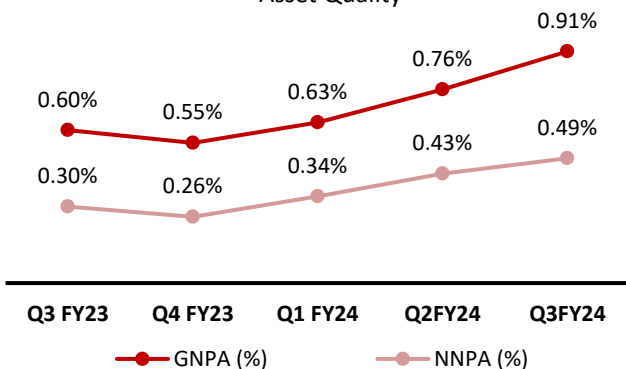


### Outstanding Loan Book (Rs. Bn)

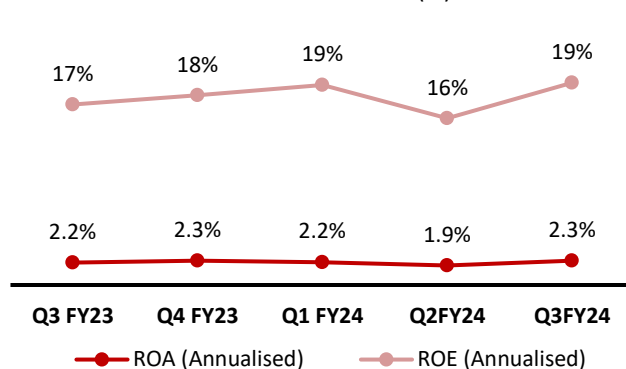


Source: Company, Keynote Capitals Ltd.

### Asset Quality

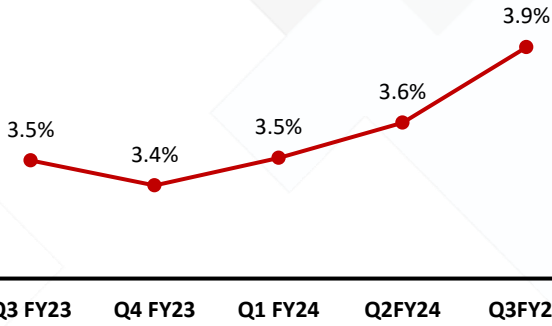


### Return Ratios (%)



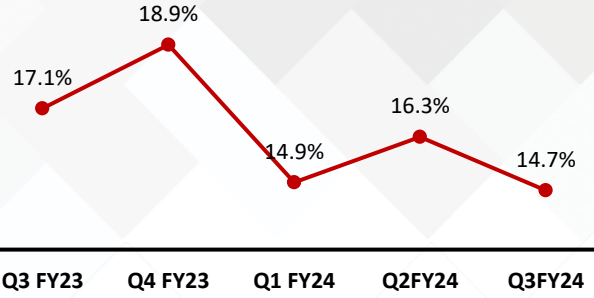
Source: Company, Keynote Capitals Ltd.

NIM (%)

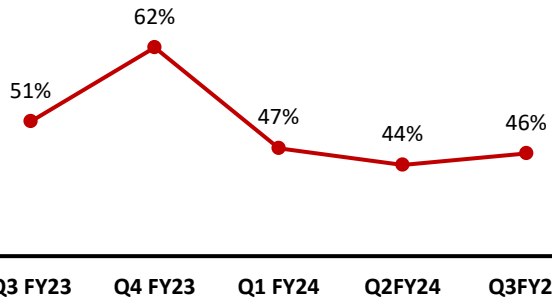


Source: Company, Keynote Capitals Ltd.

Cost to Income Ratio (%)

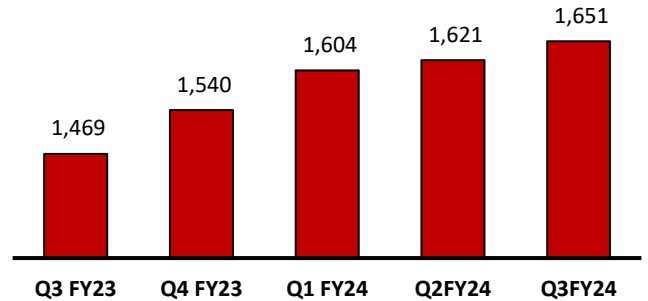


PCR (%)

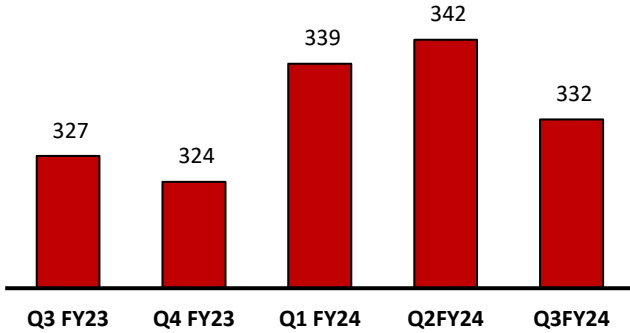


Source: Company, Keynote Capitals Ltd.

Average Business Per Branch (Rs. Mn)

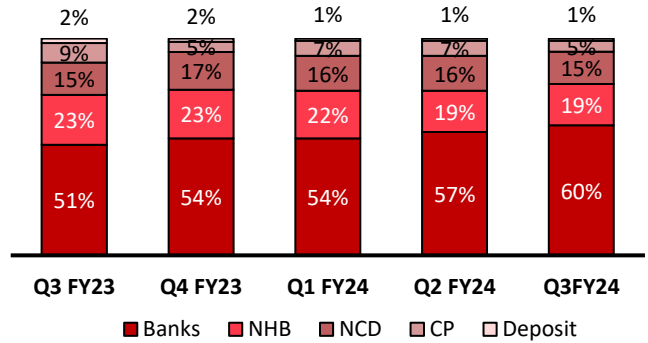


Average Business Per Employee (Rs. Mn)

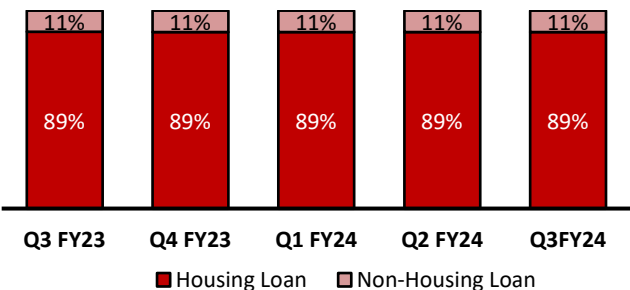


Source: Company, Keynote Capitals Ltd.

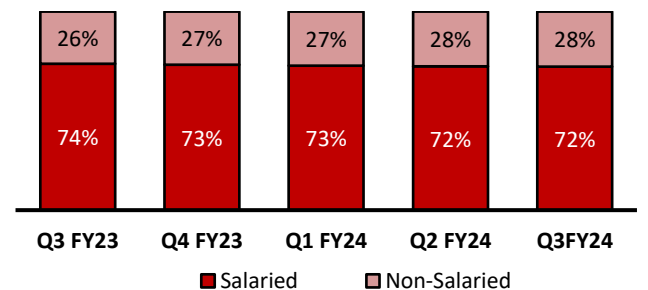
Funding Basket (%)



Percentage of home loans in the total book



Percentage of the book lent to salaried borrowers



Source: Company, Keynote Capitals Ltd.

## Q3FY24 Conference Call Takeaways

### Lending

- The Company had witnessed a degrowth in disbursement on a YoY and a QoQ basis due to the tightening of the processes and risk management initiated by the Company to centralize the disbursement and reconciliation of the loan book at the head office level after the Ambala branch incident.
- Going forward, the Company is guiding to increase the disbursement by Rs. 30 Bn every quarter, led by a) lead originations from digital channels, b) branch expansions and corresponding improvements in productivity, and c) transition to higher ticket-size home loans.
- The disbursement distribution based on ticket size is ~13% for Rs. 1 Mn, 25% for Rs. 1-2 Mn, around 26% for Rs. 2-3 Mn, and 36% for amounts exceeding Rs. 3 Mn.
- In Q4FY24, the Company expects disbursement of Rs. 25 Bn and loan book growth of 13-14%.
- The Company has conducted a review of its DSA portfolio and is in the process of eliminating those DSAs who are not contributing and also removing those with delinquency issues. The Company is adjusting its strategy and prioritizing DSAs that consistently generate a minimum level of business.
- The Company is conducting cluster-level monitoring of branches, assessing over 18 parameters to identify any potential pressure building up in any specific areas.
- The Company guides 20% disbursement growth for the next 3-4 years and 18-20% AUM growth.

### Branches

- Out of the total branches, ~63% of the branches are in the South, which contributes 72% of the total loan book. North and West contribute 13% and 11% of the total loan book, respectively.
- In Q3FY24, the Company has opened five new branches and further plans to expand its branch network by an additional 4 branches in Q4FY24.

### Others

- Due to the deferral in IT costs, the Company is expecting a Cost-to-income ratio of 16% in FY24. However, this is expected to increase to 18.0-18.5% on the back of branch addition and IT expenses.
- The Company is expecting Rs. 150-200 Mn additional investment in IT transformation costs.
- During the quarter, ICRA upgraded the Company's rating from AA+ to AAA.

## Financial Statement Analysis

### Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	8,280	10,092	12,349	13,571	15,744
Other Income	70	11	70	70	50
Net Income	8,350	10,103	12,419	13,641	15,794
Operating Expenses	1,530	1,445	1,729	2,239	2,677
<b>Pre-Provision Operating Profit</b>	<b>6,820</b>	<b>8,658</b>	<b>10,691</b>	<b>11,402</b>	<b>13,118</b>
Provisions	460	418	935	573	450
<b>Profit Before Tax</b>	<b>6,360</b>	<b>8,240</b>	<b>9,756</b>	<b>10,828</b>	<b>12,668</b>
Tax	1,621	2,028	2,439	2,707	3,167
<b>Profit After Tax</b>	<b>4,739</b>	<b>6,212</b>	<b>7,317</b>	<b>8,121</b>	<b>9,501</b>
<b>EPS (Rs.)</b>	<b>35.6</b>	<b>46.7</b>	<b>55.0</b>	<b>61.1</b>	<b>71.4</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	266	266	266	266	266
Reserves & Surplus	30,400	36,207	42,938	50,410	59,150
<b>Networth</b>	<b>30,666</b>	<b>36,473</b>	<b>43,204</b>	<b>50,676</b>	<b>59,417</b>
Borrowings	2,46,477	2,90,681	3,29,568	3,76,907	4,52,706
Other Liabilities & Provisions	2,301	3,551	3,656	3,809	3,991
<b>Total Liabilities</b>	<b>2,79,444</b>	<b>3,30,705</b>	<b>3,76,428</b>	<b>4,31,392</b>	<b>5,16,114</b>
<b>ASSETS</b>					
Cash and Balance	14,501	17,675	19,505	20,977	23,824
Advances	2,63,781	3,11,933	3,55,604	4,08,944	4,90,733
Fixed Assets & Others	1,162	1,087	1,309	1,471	1,556
<b>Total Assets</b>	<b>2,79,443</b>	<b>3,30,705</b>	<b>3,76,428</b>	<b>4,31,392</b>	<b>5,16,114</b>

### Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth YoY (%)</b>					
Advance Growth (%)	20.5%	18.3%	14.0%	15.0%	20.0%
Borrowing Growth (%)	27.8%	17.9%	13.4%	14.4%	20.1%
NII Growth (%)	2.6%	21.9%	22.4%	9.9%	16.0%
PPOP Growth (%)	-0.7%	26.9%	23.5%	6.7%	15.1%
<b>Ratios</b>					
NIM (%)	3.4%	3.5%	3.7%	3.6%	3.5%
Cost to Income Ratio	18.3%	14.3%	13.9%	16.4%	16.9%
C/D Ratio	107.0%	107.3%	107.9%	108.5%	108.4%
Capital Adequacy Ratio (%)	23.2%	23.0%	22.0%	22.0%	22.0%
ROE (%)	15.5%	17.0%	16.9%	16.0%	16.0%
ROA (%)	1.7%	1.9%	1.9%	1.9%	1.8%
<b>Asset Quality</b>					
GNPA	0.6%	0.6%	0.8%	0.7%	0.6%
NNPA	0.3%	0.3%	0.5%	0.4%	0.3%
PCR (%)	52.7%	52.7%	43.8%	48.5%	51.6%
Credit Cost (%)	0.2%	0.1%	0.3%	0.2%	0.1%
<b>Valuation</b>					
Book Value Per Share		274.2	324.8	381.0	446.7
Adjusted Book Value Per Share		268.1	312.8	370.3	435.7
P/BV (x)		3.0	2.3	2.0	1.7
Price-ABV (x)		3.1	2.4	2.0	1.7

Source: Company, Keynote Capitals Ltd.

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
23 <sup>rd</sup> Nov 2022	BUY	526	+27%
20 <sup>th</sup> Jan 2023	BUY	521	+17%
28 <sup>th</sup> April 2023	BUY	651	+13%
21 <sup>st</sup> July 2023	NEUTRAL	833	+2.4%
19 <sup>th</sup> Oct 2023	NEUTRAL	765	+5.8%
25 <sup>th</sup> Jan 2024	NEUTRAL	770	+5.8%

Source: Company, Keynote Capitals Ltd.

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

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